

AUDIT OF THE FUND ACCOUNTABILITY STATEMENT
OF USAID RESOURCES MANAGED BY MERCY CORPS
AND IMPLEMENTED BY PUBLIC AID ORGANIZATION
("PAO") UNDER COOPERATIVE AGREEMENT NUMBER
"AID-267-A-00-12-00001, CFDA # 98.001" SUB-
AWARD AGREEMENT NO. PAO BPCS-32202S005
"BROADENING PARTICIPATION THROUGH CIVIL
SOCIETY ("BPCS") PROJECT" FOR THE PERIOD FROM
JANUARY 1, 2014 to DECEMBER 31, 2014

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November 6, 2015

Public Aid Organization ("PAO")
Erbil, Iraq

Dear Sirs,

This report represents the results of our audit of the fund accountability statement of USAID Resources managed by ("MC") and implemented by Public Aid Organization ("PAO") under cooperative agreement number "AID-267-A-00-12-00001, CFDA # 98.001" subaward agreement No. PAO BPCS-32202S005", Broadening Participation through Civil Society ("BPCS") Project" for the period from January 1, 2014 to December 31, 2014.

Background

On September 26, 2012, the U.S. Agency for International Development (USAID) award to Mercy Corps mission to Iraq, the sum of U.S. Dollar 74,997,319 to provide support for a Project entitled "Broadening Participation through Civil Society (BPCS) Project,".

On November 1, 2012 Mercy Corps, mission to Iraq Subaward Agreement PAO BPCS-32202S005 with Public AID Organization to fund activities under the USAID – funded Project "Broadening Participation through Civil Society (BPCS) Project" Under Cooperative Agreement number AID-267-A-00-12-00001.

Public AID Organization (PAO) is an independent, non-governmental, not-for-profit institution founded on September 3, 2003 in Kurdistan Region, and registered with NGOs Directorate of Baghdad on July 18, 2012.

PAO works according to its humanitarian values in order to improve and settling the principles of human right establishing a developed civil society. This is done by carrying out the developing and permanent projects as it is guided by the United Nation's declaration concerning the third millennium.

PAO has vital projects in providing protection, education, economic, legal and health assistant to most people. Those are long term and in cooperation with the UN agencies and a number of International NGO's.

The Subaward is effective from November 1, 2012 to September 15, 2015.

Project Budget

Following is the agreement's budget, for the life of the project, from November 1, 2012 to September 15, 2015:

<u>Agreement Line Items</u>	<u>Component 1</u>	<u>Component 2</u>	<u>Total</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Personnel	25,646	487,279	512,925
Travel	4,658	88,492	93,150
Supplies	3,266	62,063	65,329
Program activities	47,100	259,344	306,444
Other direct costs	3,000	57,000	60,000
	<u>83,670</u>	<u>954,178</u>	<u>1,037,848</u>

Audit Objectives and Scope

The objective of this engagement is to conduct a financial audit of the fund accountability statement of USAID Resources MC and implemented by PAO, under sub-award agreement No. "AID-267-A-00-12-00001, CFDA # 98.001", "Broadening Participation through Civil Society (BPCS) project" for the period from January 1, 2014 to December 31, 2014.

Specific Objectives

- Express an opinion on whether the fund accountability statement of USAID resources Managed by MC and implemented by PAO, under sub-award agreement No. "AID-267-A-00-12-00001, CFDA # 98.001", "Broadening Participation through Civil Society (BPCS) ", for the period from January 1, 2014 to December 31, 2014 presents fairly, in all material respects, program revenues received, costs incurred and commodities/technical assistance directly by MC for the period audited in conformity with terms of the award and Generally Accepted Principles or other comprehensive basis of accounting.
- Evaluate PAO internal control related to the USAID-funded programs, assess control risk, and identify significant deficiencies including material weaknesses. This evaluation should include the internal control related to required cost-sharing/counterpart contributions.
- Perform tests to determine whether PAO complied, in all material respects, with agreement terms (including cost sharing/counterpart contributions, if applicable) and applicable laws and regulations related to USAID-funded programs. All material instances of noncompliance and all illegal acts that have occurred or are likely to have occurred should be identified. Such tests should include the compliance requirements related to required cost-sharing contributions, if applicable.
- Perform an audit of the indirect cost rate(s) if PAO has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with PAO.
- Determine if PAO has taken adequate corrective action on prior audit report recommendations.

Preliminary audit planning and procedures consisted of reviewing the following:

- The sub-award agreement between PAO and MC.
- The sub-agreements between the recipient and other implementing entities, as applicable.
- Contracts and subcontracts with third parties, if any.
- The budgets, implementation letters, and written procedures approved by MC.
- USAID Automated Directives System Chapter 636 - "Project Funded Advances"
- OMB Circular A-122 "Cost Principles for Non-profit Organizations" (2 CFR Part 230).
- OMB Circular A-21 "Cost Principles for Educational Institutions" (2 CFR Part 220).
- Federal Acquisition Regulation (FAR), Part 31, Contract Cost Principles and Procedures.
- USAID Acquisition Regulation (AIDAR), which supplement the FAR.
- Mandatory Standard Provisions for Non-U.S. Nongovernmental Grantees (USAID Automated Directives System, Chapter 303 Internal Mandatory References).
- Standard Provisions Annex for Agreements with Foreign Governments (USAID Automated Directives System, Chapter 350).
- All program financial and progress reports; and charts of accounts, organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures for materials, as necessary to successfully complete the required work.

- Any previous audits, financial reviews, etc., that directly relate to the objectives of the audit.

Our tests included, but were not limited to the following:

- Review direct and indirect costs billed to and reimbursed by MC and costs incurred but pending reimbursement by MC, identifying and quantifying any questioned costs. All costs that are not supported with adequate documentation or are not in accordance with the agreement terms must be reported as questioned. Questioned costs that are pending reimbursement by MC shall be identified in the notes to the fund accountability statement as not reimbursed by MC.
- Review general and program ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to, and reimbursed by, MC to the Project and general ledgers.
- Review procedures used to control the funds, including their channelling to contracted financial institutions or other implementing entities. Review bank accounts and the controls on those bank accounts. Perform positive confirmation of balances, as necessary.
- Determine whether advances of funds were justified with documentation, including reconciliations of funds advanced, disbursed, and available. This is to ensure that all funding received by the recipient from MC was appropriately recorded in the recipient's accounting records and that those records were periodically reconciled with information provided by MC.
- Determine whether program income was added to funds used to further eligible project or Project objectives, to finance the non-federal share of the project or Project, or deducted from Project costs, in accordance with USAID regulations, other implementing guidance, or the terms and conditions of the award.
- Review procurement procedures to determine whether sound commercial practices including competition were used, reasonable prices were obtained, and adequate controls were in place over the qualities and quantities received.
- Review direct salary charges to determine whether salary rates were reasonable for that position, in accordance with those approved by MC when MC approval is required, and supported by appropriate payroll records. Determine if overtime was charged to the program and whether it was allowable under the terms of the agreements. Determine whether allowances and fringe benefits received by employees were in accordance with the agreements and applicable laws and regulations and question unallowable salary charges in the fund accountability statement.
- Review travel and transportation charges to determine whether they were adequately supported and approved. Travel charges that are not supported with adequate documentation or not in accordance with agreements and regulations must be questioned in the fund accountability statement.
- Review commodities (e.g., supplies, materials, vehicles, equipment, food products, tools, etc.) procured by the recipient or directly procured by MC for the recipient's use. Determine whether commodities exist or were used for their intended purposes in accordance with the terms of the agreements, and whether control procedures exist and have been placed in operation to adequately safeguard the commodities. As part of the procedures to determine if commodities were used for intended purposes, perform end-use reviews for an appropriate sample of all commodities based on the control risk assessment. End-use reviews may include site visits to verify that commodities exist or were used for their intended purposes in accordance with the terms of the agreements. The cost of all commodities whose existence or proper use in accordance with the terms of the agreements cannot be verified must be questioned in the fund accountability statement.

- Review technical assistance and services procured by the recipient. Determine whether technical assistance and services were used for their intended purposes in accordance with the terms of the agreements. The cost of technical assistance and services not properly used in accordance with the terms of the agreements must be questioned in the fund accountability statement.
- When indirect costs are charged to USAID using provisional rates, review the allocation method to determine that the indirect cost pool and distribution base include only allowable items in accordance with the agreement terms and regulations. Costs that are unallowable as charges to USAID agreements (e.g., fundraising) must be allocated their share of indirect costs if they represent activities that (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the organization's indirect costs. Indirect cost rates must be calculated after all adjustments have been made to the pool and base. When indirect costs are charged to USAID using predetermined or fixed rates, verify that the correct rates are applied in accordance with the agreement with MC.
- Review unliquidated advances to the recipient and pending reimbursements by MC when performing final closeout audits. Ensure that the recipient has returned any excess cash to MC. Also, ensure that all assets (inventories, fixed assets, commodities, etc.) procured with project funds were disposed of in accordance with the terms of the agreements. Present, as an annex to the fund accountability statement, the balances and details of final inventories of nonexpendable property acquired under the agreements. This inventory should indicate which items were titled to the U.S. Government and which were titled to other entities. These closeout audit procedures must be performed for any award that expires during the period audited.

Except as discussed in the following paragraph, we conducted our audit of the fund accountability statement in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by chapter 3, paragraphs 3.82 (b) and 3.96 of U.S. Government Auditing Standards, since no such program is offered by professional organizations in Iraq. We believe that the effects of this departure from U.S. Government Auditing Standards is not material because we participate in the Ernst & Young worldwide internal quality control review program which requires our offices to be subjected, every three years at least, to an extensive quality control review by partners and managers from other Ernst & Young offices.

Also, we do not have a continuing education program that fully satisfies the requirement set forth in Chapter 3, paragraph 3.76 of U.S. Government Auditing Standards. However, our current program provides for at least 80 hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfies the requirement.

As part of our audit, we made a study and evaluation of relevant internal controls and reviewed PAO compliance with applicable laws and regulations.

Audit Results

Fund Accountability Statement:

Our audit procedures identified U.S.\$ 832 of questioned costs, as unsupported cost, out of USD 380,017 of total audited amount for the period from January 1, 2014 to December 31, 2014.

Our tested covered 87% of the total expenditures for the period. This ratio represents the total amount of expenditures audited by us expressed as a percentage of the total expenditures which have been subject to our audit.

Internal Control Structure:

Our audit procedures identified the following significant deficiency in the internal control structure of PAO, which we have reported in the independence Auditor's Report on Internal Control:

1. Inadequate Supporting Documents (Schedule of Audit Findings and questioned costs- Internal Control I.1, I.2)

Compliance:

The results of our compliance tests identified no material instances of noncompliance.

Indirect Cost Rates:

No indirect cost rates were required or charged under this agreement.

Cost-Sharing/Counterpart Contributions Schedule:

Cost-sharing/counterpart contributions were not required under this agreement.

Follow up on Prior Audit Recommendations:

In our report dated November 10, 2014, of the audit titled "Audit of the Accountability Statement of USAID resources managed by Mercy Corps and implemented by Public Aid Organization under sub-agreement No. "AID-267-A-00-12-00001, CFDA # 98.001", "Broadening Participation through Civil Society (BPCS) project" for the period from January 1, 2014 to December 31, 2014, we expressed an unqualified opinion on the fund accountability statement and we did not identify any questioned cost. We did identify any material internal control weaknesses or any material instances of noncompliance with the award terms and applicable laws and regulations.

Summary of PAO Management responses

As per PAO email dated November 6, 2015, PAO reviewed and confirmed that they are in agreement with our findings.

Yours faithfully,

Ernst & Young

The logo for Ernst & Young, featuring the company name in a blue, cursive script font.



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Independent Auditor's Report

Public Aid Organization ("PAO")
Erbil, Iraq

We have audited the fund accountability statement of USAID resources managed by Mercy Corps ("MC") and implemented by Public Aid Organization ("PAO") under Grant Agreement No. AID-267-A-00-12-00001 subaward agreement No. BPCS 32202S005 "Broadening Participation through Civil Society ("BPCS") project" for the period from January 1, 2014 to December 31, 2014. The fund accountability statement is the responsibility of PAO management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit of the fund accountability statement in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by chapter 3, paragraphs 3.82 (b) and 3.96 of U.S. Government Auditing Standards, since no such project is offered by professional organizations in Erbil, Iraq. We believe that the effects of this departure from U.S. Government Auditing Standards is not material because we participate in the Ernst & Young worldwide internal quality control review project which requires our offices to be subjected, every three years at least, to an extensive quality control review by partners and managers from other Ernst & Young offices.

Also, we do not have a continuing education program that fully satisfied the requirement set forth in chapter 3, paragraph 3.76 of U.S. Government Auditing Standards. However, our current program provides for at least 80 hours of continuing education and training every two years. We are taking appropriate steps to implement a continuing education program that fully satisfied the requirement.

The results of our tests identified questioned costs of U.S.\$ 832, as detailed in the fund accountability statement, that are explicitly questioned because they are not supported.

In our opinion, except for the effects of the questioned cost discussed in the preceding paragraph, the fund accountability statement referred to above, presents fairly, in all material respects, project's revenues and costs locally incurred and reimbursed by MC for the period from January 1, 2014 to December 31, 2014 in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2 to the fund accountability statement.

In accordance with U.S. Government Auditing Standards, we have also issued our reports dated November 6, 2015 on our consideration of PAO internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent Auditors' Report in considering the results of our audit.

This report is intended for the information of PAO, MC and the U.S. Agency for International Development (USAID). However, upon release by MC, this report is a matter of public record and its distribution is not limited.

Ernst & Young

The logo for Ernst & Young, featuring the company name in a blue, cursive script font.

November 6, 2015
Baghdad, Iraq

USAID Resources Managed by Mercy Corps and Implemented by Public Aid Organization
 Under cooperative agreement number "AID-267-A-00-12-00001, CFDA # 98.001"
 Subaward agreement No. PAO BPCS-32202S005"
 "Broadening Participation through Civil Society ("BPCS") Project"

FUND ACCOUNTABILITY STATEMENT

For the period from January 1, 2014 to December 31, 2014

(Currency: U.S. \$)

	Total Budget	Total Actual	Questioned Costs		Notes	
			Ineligible	Unsupported	Fund Accountability Statement	Schedule of Audit Findings and Questioned Costs
<u>Revenues</u>						
Transfers from MC	1,037,848	384,259	-	-	3	
Total Revenues	1,037,848	384,259	-	-		
<u>Costs</u>						
Personnel	512,925	183,200	-	-	4	
Program activities	306,444	153,731	-	832	5	I.1, II.1
Travel	93,150	24,096	-	-	6	
Supplies	65,329	8,090	-	-	7	
Other Direct Costs	60,000	10,900	-	-	8	
Total costs	1,037,848	380,017	-	832		
Fund Balance during 2014	-	4,242			9	

The attached notes 1 to 10 form part of this statement

USAID Resources Managed by Mercy Corps and Implemented by Public Aid Organization
 Under cooperative agreement number "AID-267-A-00-12-00001, CFDA # 98.001"
 Subaward agreement No. PAO BPCS-32202S005"
 "Broadening Participation through Civil Society ("BPCS") Project"

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

For the period from January 1, 2014 to December 31, 2014

1. General

Background

On September 26, 2012, the U.S. Agency for International Development (USAID) award to Mercy Corps mission to Iraq, the sum of U.S. Dollar 74,997,319 to provide support for a Project entitled "Broadening Participation through Civil Society (BPCS) Project,".

On November 1, 2012 Mercy Corps, mission to Iraq Subaward Agreement PAO BPCS-32202S005 with Public Aid Organization to fund activities under the USAID – funded Project "Broadening Participation through Civil Society (BPCS) Project" Under Cooperative Agreement number AID-267-A-00-12-00001.

Public Aid Organization (PAO) is an independent, non-governmental, not-for-profit institution founded on September 3, 2003 in Kurdistan Region, and registered with NGOs Directorate of Baghdad in July 18, 2012.

PAO works according to its humanitarian values in order to improve and settling the principles of human right establishing a developed civil society. This is done by carrying out the developing and permanent projects as it is guided by the United Nation' declaration concerning the third millennium.

PAO has vital projects in providing protection, education, economic, legal and health assistant to most people. Those are long term and in cooperation with the UN agencies and a number of International NGO's.

The Subaward is effective from November 1, 2012 to September 15, 2015.

Project Budget

Following is the agreement's budget, for the life of the project, from November 1, 2012 to September 15, 2015:

<u>Agreement Line Items</u>	<u>Component 1</u>	<u>Component 2</u>	<u>Total</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Personnel	25,646	487,279	512,925
Travel	4,658	88,492	93,150
Supplies	3,266	62,063	65,329
Program activities	47,100	259,344	306,444
Other Direct Costs	3,000	57,000	60,000
	<u>83,670</u>	<u>954,178</u>	<u>1,037,848</u>

2. Accounting Policies

Basis of Accounting

PAO uses the cash basis of accounting in the preparation of the fund accountability statement. Under this basis of accounting, revenues are recorded when received and expenses are recorded when paid.

The fund accountability statement has been presented in U.S. Dollar.

PAO is able to account for the receipt and disbursement of USAID funds.

Foreign Currency Transactions

PAO deals mainly with U.S. \$ and Iraqi Dinar (IQD). PAO reporting currency is the U.S. \$. Transactions in currencies other than the U.S. \$ were converted to U.S. \$ using the standard exchange rate of 1 U.S. \$ to IQD 1,200.

3. Transfers from MC

This item represents total cash transferred from Mercy Corps (MC) to PAO's bank account to fund the project's objectives during the period from January 1, 2014 to December 31, 2014.

<u>Date of Transfer</u>	<u>U.S. \$</u>
January 8, 2014	40,500
January 30, 2014	50,110
March 13, 2014	45,926
April 20, 2014	39,872
May 12, 2014	71,219
June 10, 2014	22,464
July 17, 2014	19,384
September 2, 2014	18,000
September 24, 2014	22,269
November 9, 2014	35,320
December 15, 2014	19,195
Total funds	<u><u>384,259</u></u>

4. Personnel

	<u>U.S. \$</u>
Project Coordinators	72,000
Driver	30,000
Program manager	20,400
Assistant Manager	18,000
Accountant	15,600
Reporter	10,400
Assistant of Hub	10,400
Receptionist	4,800
Security	1,600
	<u><u>183,200</u></u>

5. Program Activities

	<u>U.S. \$</u>
Work Shops and Trainings	97,603
Office Rent	21,185
Governorates Field teams	20,600
Representative office costs	5,696
Food and beverages	2,286
Cleaning Service	1,593
Electricity	1,496
Maintenance	1,396
Stationery	1,174
Other Costs	491
Facilitator	211
	<u><u>153,731</u></u>

6. Travel

	U.S. \$
Transportation	10,096
Accommodation	6,952
Per-diem	6,734
Meetings	314
	<u>24,096</u>

7. Supplies

	U.S. \$
Communication	4,940
Office Supplies	1,803
Other supplies expenses	1,347
	<u>8,090</u>

8. Other direct cost

	U.S. \$
Audit fees	<u>10,900</u>

9. Fund Balance

PAO maintains a separate bank account for the project. Disbursements of funds were made by Public Aid Organization (PAO) through its general bank account. However, PAO is able to account for the receipt and disbursements of USAID funds.

	U.S. \$
Fund balance as at December 31, 2014	4,242
Fund balance as at January 1, 2014	8,984
Total fund balance as at December 31, 2014	13,226
Cash on hand	(350)
Bank Balance as at December 31, 2014	<u>12,876</u>

10. Questioned Costs

Questioned Costs are presented in two separate categories - ineligible and unsupported - and consist of audit findings made on the basis of the terms of the contract and applicable laws and regulations, which prescribe the nature and treatment of unallowable costs.

Costs in the column labeled "Ineligible" of the "Questioned Costs" are supported by vouchers or other documentation but are not allowed because they are either unreasonable, not grant agreement related, or are prohibited by the grant agreement or applicable laws and regulations.

Cost in the column labeled "Unsupported" are also included in the classification of "Questioned Costs" and are related to costs that are not supported by adequate documentation.

SUPPLEMENTARY INFORMATION



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Independent Auditor's Report on Internal Control

Public Aid Organization ("PAO")
Erbil, Iraq

We have audited the fund accountability statement of USAID Resources Managed by Mercy Corps ("MC") and implemented by Public Aid Organization ("PAO") under Grant Agreement No. AID-267-A-00-12-00001 sub-award agreement No. BPCS 32202S005 "Broadening Participation through Civil Society ("BPCS") project" for the period from January 1, 2014 to December 31, 2014, and have issued our report on it dated November 6, 2015.

Except for not having an external quality control review by an unaffiliated audit organization and not having a fully satisfactory continued professional education program (as described in our report on the fund accountability statement), we conducted our audit of the fund accountability statement in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the entity's internal control to be significant deficiencies:

- | | | |
|-------------------------|------------|--|
| 1. Inadequate Documents | Supporting | (Schedule of Audit Findings and Questioned Costs -Internal Control I.1, I.2) |
|-------------------------|------------|--|



We also noted other matters involving internal control and its operating that we have reported to the management of PAO in a separate letter dated November 6, 2015.

This report is intended for the information of PAO, MC and the U.S. Agency for international Developments (USAID) . However, upon release by MC this report is a matter of public record and its distribution is not limited.

Ernst & Young

A handwritten signature in blue ink that reads 'Ernst & Young' in a cursive style.

November 6, 2015
Baghdad, Iraq



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Independent Auditor's Report on Compliance

Public Aid Organization ("PAO")
Erbil, Iraq

We have audited the fund accountability statement of USAID Resources Managed by Mercy Corps ("MC") and implemented by Public Aid Organization ("PAO") under Grant Agreement No. AID-267-A-00-12-00001 subaward agreement No. BPCS 32202S005 "Broadening Participation through Civil Society ("BPCS") project" for the period from January 1, 2014 to December 31, 2014.

Except for not having an external quality control review by an unaffiliated audit organization and not having a fully satisfactory continued professional education program (as described in our report on the fund accountability statement), we conducted our audit of the fund accountability statement in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement resulting from violation of agreement terms and laws and regulations that have a direct and material effect on the determination of the fund accountability statement amounts.

Compliance with cooperative agreement terms and laws and regulations applicable to PAO, is the responsibility of PAO management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of PAO's compliance with certain provisions of award terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our test disclosed no instances of compliance that are required to be reported here under U. S. Government Auditing Standards.

This report is intended for the information of PAO, MC and the U.S. Agency for International Development (USAID). However, upon release by MC, this report is a matter of public record and its distribution is not limited.

Ernst & Young

November 6, 2015
Baghdad, Iraq

USAID Resources Managed by Mercy Corps and Implemented by Public Aid Organization
Under cooperative agreement number "AID-267-A-00-12-00001, CFDA # 98.001"
Subaward agreement No. PAO BPCS-32202S005"
"Broadening Participation through Civil Society ("BPCS") Project"

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

For the period from January 1, 2014 to December 31, 2014

I. INTERNAL CONTROL

1. INADEQUATE SUPPORTING DOCUMENTS

Criteria:

In accordance with OMB Circular No. A-122 section A, all allowable cost must be adequately supported.

Condition:

During our audit, we noticed that PAO disbursed travel expenses without having complete and accurate documentation for these expenses. The total unsupported expenses during the audit period is U.S.\$ 832.

Cause:

PAO did not have the supporting documents for these expenses.

Effect or potential effect:

Allowing expenses to be reimbursed without appropriate supporting documentation increases the possibility of erroneous or unauthorized disbursement being made. All questioned costs are detailed in the Schedule of Questioned Costs.

Recommendation

We recommend PAO to implement necessary and adequate controls to ensure availability and completeness of supporting documents to support accounting transactions and records.

Management's Comments

We have sent out all outstanding expenses vouchers to Ernst Young by scan after we received documents from our coordinators.

EY Response

This point is still valid and the amount of U.S.\$ 832 is still not supported.

USAID Resources Managed by Mercy Corps and Implemented by Public Aid Organization
 Under cooperative agreement number "AID-267-A-00-12-00001, CFDA # 98.001"
 Subaward agreement No. PAO BPCS-32202S005"
 "Broadening Participation through Civil Society ("BPCS") Project"

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
 For the period from January 1, 2014 to December 31, 2014

I. INTERNAL CONTROL

II. Questioned cost

	Questioned Cost	
	Ineligible	Unsupported
1. INADEQUATE SUPPORTING DOCUMENTS		
PAO disbursed travel expenses for the value of U.S.\$ 832 without having complete and accurate documentation for these expenses.	-	832
	<u>-</u>	<u>832</u>

AUDIT OF THE FUND ACCOUNTABILITY STATEMENT OF
USAID RESOURCES MANAGED BY MERCY CORPS AND
IMPLEMENTED BY PUBLIC AID ORGANIZATION ("PAO")
UNDER COOPERATIVE AGREEMENT NUMBER "AID-267-
A-00-12-00001, CFDA # 98.001" SUB-AWARD
AGREEMENT NO. PAO BPCS-32202S005 "BROADENING
PARTICIPATION THROUGH CIVIL SOCIETY ("BPCS")
PROJECT" FOR THE PERIOD FROM JANUARY 1, 2014
to DECEMBER 31, 2014

MATTERS ARISING DURING THE AUDIT



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November 6, 2015

To the Management of Public Aid Organization ("PAO")
Erbil, Iraq

Dear Sirs,

MATTERS ARISING DURING THE AUDIT

In planning and performing our audit of the fund accountability statement of USAID resources managed by Mercy Corps and implemented by Public Aid Organization ("PAO") under Grant Agreement No. "AID-267-A-00-12-00001" Subaward agreement No. PAO BPCS 32202S005 "Broadening participation through Civil Society ("BPCS") project" for the period from January 1, 2014 to December 31, 2014, in accordance with Generally Accepted Government Auditing Standards (GAGAS) we considered internal control relevant to the preparation of the fund accountability statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Also we reported immaterial instances of non-compliance with agreement terms and applicable laws and regulations in our management letter.

Our consideration of internal control was for the purpose described in the preceding paragraph and was not designed to identify all weaknesses in internal control and therefore, there can be no assurance that all weaknesses have been identified. If we had performed more extensive procedures on internal control, we may have identified additional significant weaknesses to be reported, or concluded that some of the reported significant weaknesses need not, in fact, have been reported.

A weaknesses in internal control exists when: (i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the fund accountability statement on a timely basis; or (ii) A control necessary to prevent, or detect and correct, misstatements in the fund accountability statement on a timely basis is missing. A weakness in internal control is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

This communication is intended solely for the information and use of PAO, Mercy Corps and the U.S. Agency for International Development (USAID).

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Yours faithfully,

Ernst & Young

Baghdad, Iraq

USAID Resources Managed by Mercy Corps and Implemented by Public Aid Organization
Under cooperative agreement number "AID-267-A-00-12-00001, CFDA # 98.001"
Subaward agreement No. PAO BPCS-32202S005"
"Broadening Participation through Civil Society ("BPCS") Project"

MATTERS ARISING DURING THE AUDIT

For the period from January 1, 2014 to December 31, 2014

I. INTERNAL CONTROL

1. PROJECT COST CENTERS

Observation

During our audit, we noticed that projects' cost centers, in the accounting software, were not properly utilized to account for the donors contributions, donated to finance PAO designated programs and projects.

When preparing reports for different donors, discrepancies between books of accounts and reports submitted to donors might result. Also, this might result in improper tracking of projects' receipts and disbursements.

Recommendation

We encourage a full and complete utilization of project's cost centers which will serve to monitor and track projects receipts and disbursements more efficiently and effectively, decrease the risks associated with manual maintenance of records, as well as provide additional benefits in tracking projects disbursements value.

Management Response

we have used a manual system rather than a software system since the beginning of project and that's why we have not properly utilized cost center to account for donors contributions, donated to our finance.

But we are now about using a new software system this year for our projects including BPCS as we have already bought it so we are deeply take your notice and your recommendation to utilize cost center properly for next audit.

MATTERS ARISING DURING THE AUDIT

For the period from January 1, 2014 to December 31, 2014

I. INTERNAL CONTROL

2. PHYSICAL CASH COUNT

Observation

During our audit, we noticed that PAO maintains cash on hand that belongs to the project, although this cash should be maintained in the bank account, and also, this cash is not counted and reconciled on regular basis.

This might result in misusing the project funds, and it also makes it difficult to reconcile fund balance as per books of the project account to the actual available cash on hand. This might also lead to loss or theft of this cash.

Recommendation

We recommend PAO to maintain all cash in bank and withdraw cash from bank when it is necessary to pay their obligations. Also, we recommend PAO to perform physical cash count of cash on hand on daily basis to reconcile fund balance as per books of the project account to the actual available cash on hand.

Management Response

PAO has started performing physical cash count and we have provided a copy of physical cash count template to mercy corps already.

MATTERS ARISING DURING THE AUDIT

For the period from January 1, 2014 to December 31, 2014

I. INTERNAL CONTROL

3. BANK RECONCILIATIONS

Observation

During our audit, we noticed that PAO does not prepare bank reconciliations on regular basis. As a result there is reduced control over the accuracy of the accounting for bank transactions as any errors would not be promptly detected.

Recommendation

Bank reconciliations should be prepared on a monthly basis as soon as possible after the month end. To ensure the reconciliations is properly prepared it should be reviewed by a person independent of the reconciliation process.

Management Response

PAO performs bank reconciliation at least once every year to ensure exact amount received from the donor matches with bank statements during the year, as well as checking bank statement monthly against funds are requested.